

# EXCHANGE TRADED FUNDS.

BELL POTTER

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ABRIDGED

## Opinion Piece: Access a global portfolio of Quality companies via QUAL or QMIX

Although executing an offshore exposure has been traditionally difficult, this changed with the launch of international ETFs on the ASX in 2007. In this edition, we focus on two international ETFs that offer a different proposition in comparison to the other broad based international ETFs currently on the ASX. These ETFs use a 'Smart Beta' investment style, which incorporates a layer of active strategies that professional Fund Managers often use, to filter only quality global companies into its portfolio. These ETFs are ideal for investors seeking a little bit more than the other traditional market capitalisation weighted international ETFs.

These ETFs are - Market Vector's MSCI World ex Australia Quality ETF (QUAL) and StateStreet's MSCI World Quality Mix ETF (QMIX).

(continued page 2).

## Market Update

Exchange Traded Product (ETP) global assets under management weakened in the September quarter falling 5.7% to \$2.778tn. Net new inflows delivered \$84.9bn, supported by very solid flows in July and September, and a slightly soft August.

(continued page 7).

## ETFs: Own the index in a single listed security

Key attributes:

- Simple, liquid and flexible way to secure exposure to a specific index, sector, fixed income, commodity or currency;
- Low fees as compared to Managed Funds (Domestic Equity Management Expense Ratio (MER) 15-90 bp, International Equity MER 5-73 bp, Fixed Income MER 20-28 bp, Cash MER 18 bp, Commodity MER 15-69 bp, Currency MER 45-57 bp, Other MER 138 bp);
- Distribute dividends or coupons based on the underlying investments including franking credits, interest, and capital gains on a proportional basis;
- Trade at or very close to their net asset value and exhibit less investment manager or individual security risk;
- Own a claim to the underlying shares in the portfolio that are held with a custodian.

There are also key risks investors must consider. These include managing currency exposure (international, commodities) and overall share market risk, based on various economic conditions and global events.

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- Market update
- Summary Information

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## Opinion Piece

## Access a global portfolio of Quality companies through QUAL or QMIX

Gaining an international equity exposure, can be difficult at best. The exasperating choice, limited knowledge of offshore markets and associated taxation complexities, mean that many investors opt to have a very concentrated portfolio of domestic assets. However, given the recent returns of the domestic market, Australian investors are increasingly looking for offshore equity exposure to generate higher returns and gain certain sectoral exposures.

Although executing an offshore exposure can potentially be a daunting process, investors can first have a taste of international investing via International ETFs. Structured similar to an index fund but listed on the ASX, ETFs have made it extraordinarily easy to gain a diversified, cost and tax effective international equity exposure.

In this edition, we focus on two international ETFs that offer investors a different proposition in comparison to the other broad based global ETFs currently on the ASX. These ETFs use a 'Smart Beta' investment mandate over a global index to filter out top quality stocks and capture its performance. These ETFs are

- Market Vector's MSCI World ex Australia Quality ETF (QUAL)
- StateStreet's MSCI World Quality Mix ETF (QMIX)

Both ETFs may sound very similar, however applies a different quantitative and qualitative overlay that has certain nuances.

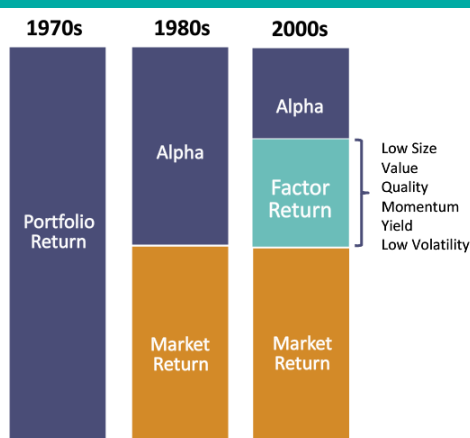
## First off, what is Smart Beta?

There has been an increasing believe amongst investors and academics alike, that there are things that can be done in a passive portfolio (a portfolio which aims to track a particular benchmark) which starts to be positioned like an active portfolio (a portfolio which aims to outperform a particular benchmark).

Simply put, 'Smart Beta' is an investment management approach that offers a blend of both passive and active investment styles

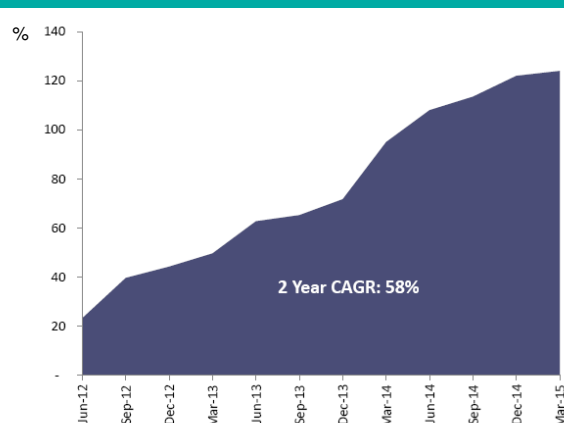
- **Passive Element:** Generally low cost and transparent, therefore easy to replicate like index strategies
- **Active Element:** Attempt to obtain active 'factor' exposures by using weighting methods different than market cap benchmark (A factor is an characteristic or an attribute of a stock that explains its performance).

Figure 1: Evolution of Portfolio Management



SOURCE: MSCI

Figure 2: Growth seen in AUM for MSCI Factor Indices



SOURCE: MSCI

The combination of these investment styles allows Smart Beta ETFs rewrite the rules of traditional index investing in an effort to deliver targeted outcomes that can help investors reduce risk, generate income or potentially enhanced returns.

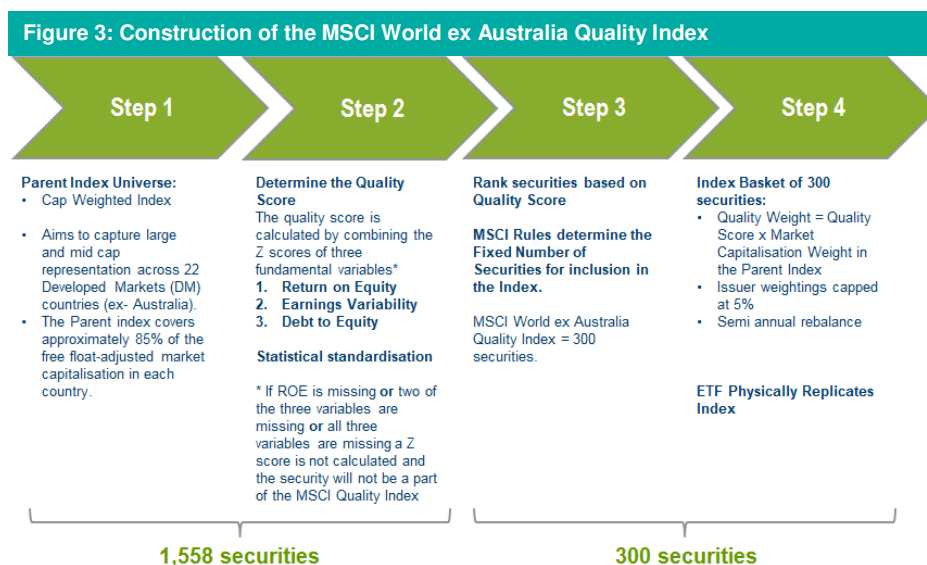
## Opinion Piece (cont.)

### Strategy

QUAL replicates the MSCI World ex Australia Quality Index. The Index is constructed by experienced index provider, MSCI Inc. MSCI runs a stock selection process which identifies high quality companies from the parent index, MSCI World ex Australia (which has over 1,500 securities), based on three key fundamental factors:

- high return on equity;
- stable earnings variability;
- low debt to equity ratio.

MSCI then rank these securities based on a Quality score and takes the best 300 securities to form the Index.



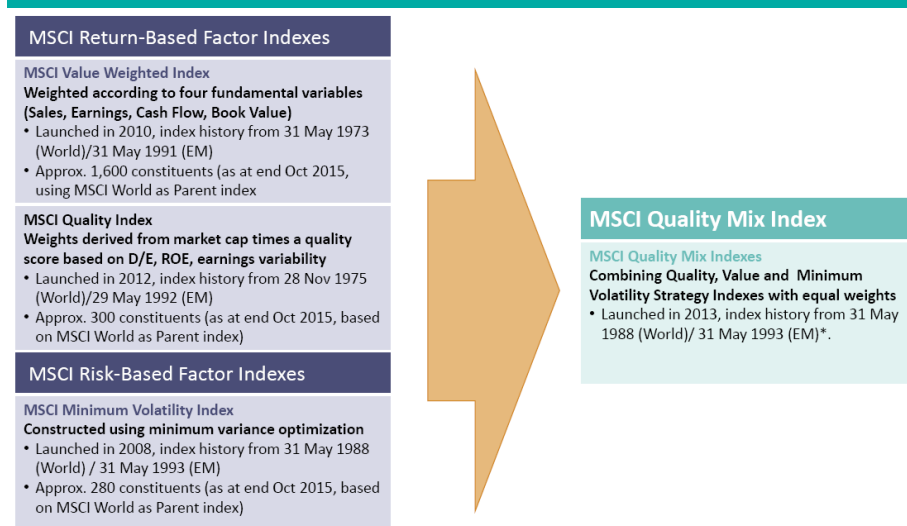
SOURCE: MARKET VECTORS

QMIX tracks the MSCI World Quality Mix Index. The Index is also constructed by MSCI Inc. and it's an equal weighted combination of three factor Indices. These factor indices start with the MSCI World as the parent index, before running a stock selection process on a combination of factors. These factor indices are:

- MSCI World Quality Index;
- MSCI World Value Weighted Index;
- MSCI World Minimum Volatility Index.

It aims to represent the combined risk/return performance characteristic of quality, value and low volatility factors within global developed equities. QMIX then uses an optimised strategy to track the performance of the MSCI World Quality Mix Index without holding all the Index constituents.

**Figure 4: Description of the three factor indices in the MSCI World Quality Mix Index**



SOURCE: MSCI

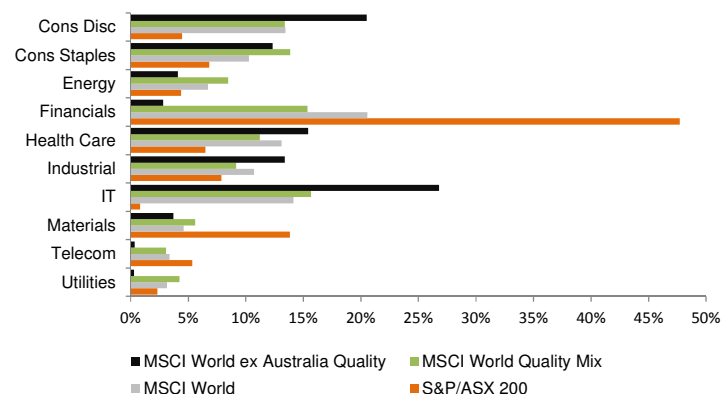
## Opinion Piece (cont.)

### Portfolio Composition

The global share market, as represented by the MSCI World Index, is far more diverse, in terms of sector exposures, than the Australian market. Although the Financials sector represents the largest sector index weight, many sectors not well represented in the Australian market, such as Information Technology and Healthcare, are well represented in the global index.

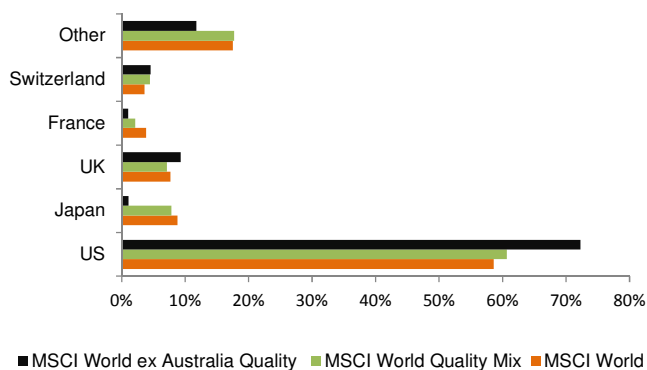
Because both the reference indices are factor indices, they have different weightings compared to the parent index (MSCI World). The table below shows the Sector and Country allocations between the multiple indices.

Graph 1: Sector Allocation between Indices



SOURCE: BELL POTTER DATA

Graph 2: Country Allocation between Indices



SOURCE: BELL POTTER DATA

Observation of sector exposures as compared against the MSCI World Index

- QUAL and QMIX has substantial tilt towards Technology firms - as traditionally IT firms are efficient users of capital;
- QUAL and QMIX has a lower exposure to Financials - as many financial companies have high levels of gearings, ultimately dragging down its quality score;
- QUAL has an almost negligible exposure to Utilities and Telecommunication - highly geared sectors.

Other key notes on QMIX and QUAL

- QUAL listed on the ASX in October 2014, QMIX listed in September 2015;
- QUAL is a single factor index fund, while QMIX is a multi factor index fund;
- QMIX runs an optimisation strategy to replicate the performance of the MSCI World Quality Mix - which means QMIX will not hold all the reference index constituents;
- QUAL fully replicates the MSCI World ex Australia Index;
- Both have a portfolio of around 300 stocks;
- Both QUAL and QMIX will have some similar holdings, however, you will find QUAL to have a more concentrated position - the Top 20 Holdings in QUAL represent 42.8% of the portfolio while the same stocks represent 20.6% of QMIX;
- QUAL has a much more active position than Vanguard's MSCI Index International Shares ETF (VGS);

## Opinion Piece (cont.)

- Australia represents 3.4% in QMIX, while QUAL is ex- Australia;
- QUAL and QMIX will have a higher portfolio turnover (~20%) compared to the other broad global ETFs;
- Both QUAL and QMIX are unhedged vehicles;
- Both offer a competitive management fee of 40bp in comparison to other broad based global ETFs (range from 18bp - 48bp);
- QUAL and QMIX are Australian domicile ETFs therefore investors will not be required to fill up a W-8BEN form.

## Top Holdings

Table 1: Global based ETFs - Top 10 Holdings									
WZOZ/WXHG (Hdgd/Unhdgd)		IOO/IHOO (Hdgd/Unhdgd)		VGS/VGAD (Hdgd/Unhdgd)		QUAL		QMIX	
Apple	1.95%	Apple	7.16%	Apple	2.13%	Apple	4.63%	Apple	2.07%
Microsoft	1.21%	Microsoft	4.03%	Microsoft	1.25%	Microsoft	4.45%	Exxon Mobil	2.03%
Exxon Mobil	0.99%	Exxon Mobil	3.53%	Exxon Mobil	1.07%	Exxon Mobil	3.45%	Microsoft	1.88%
Kfz Kospi 200 IDX F 12/15	0.98%	Johnson & Johnson	2.94%	General Electric	0.90%	Johnson & Johnson	3.04%	Johnson & Johnson	1.25%
General Electric	0.83%	General Electric	2.91%	Johnson & Johnson	0.87%	Roche Holdings	2.37%	Alphabet C	1.04%
Johnson & Johnson	0.79%	Novartis	2.79%	Wells Fargo & Co	0.82%	Alphabet C	2.09%	Roche Holdings	1.03%
Berkshire Hathaway	0.73%	Nestle	2.72%	Amazon.com	0.77%	Alphabet A	2.03%	Pepsico	0.94%
Amazon.com	0.71%	JPMorgan Chase & Co	2.57%	Nestle	0.77%	Home Depot	1.84%	Procter & Gamble	0.91%
Wells Fargo & Co	0.70%	Procter & Gamble	2.22%	JPMorgan Chase & Co	0.74%	Walt Disney	1.80%	Intel	0.87%
Novartis	0.70%	Pfizer	2.21%	Alphabet C	0.68%	Visa	1.79%	McDonald's	0.84%
<b>Total</b>	<b>9.59%</b>	<b>Total</b>	<b>33.08%</b>	<b>Total</b>	<b>10.01%</b>	<b>Total</b>	<b>27.49%</b>	<b>Total</b>	<b>12.86%</b>

SOURCE: BELL POTTER

The table above shows the Top 10 Holdings between the three most commonly used global ETFs and these Smart Beta ETFs. We have highlighted in bold the similar stocks these 3 ETFs hold compared with QUAL and QMIX. As the table shows, both QUAL and QMIX runs a different portfolio all together in contrast to the other 3 broad global ETFs.

## Final Thoughts

We believe clients looking for a passive broad based global developed market exposure would suite either Vanguard's cost effective product (VGS) or StateStreet's World ex Australia ETF (WZOZ). While, a more concentrated global market exposure would point to the iShares global mega cap fund (IOO).

QUAL and QMIX tracks an index that has been reweighted based on financial fundamentals. Therefore, we believe QUAL and QMIX is best suited for investors wanting a little more than a cap-weighted benchmark and seeking a cost effective solution with a low conviction in active management.

## Opinion Piece

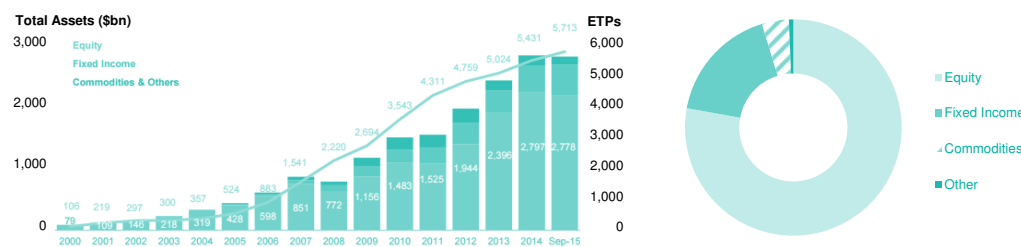
## Summary Table

Description		
ASX Code	QUAL	QMX
Manager	Market Vectors	State Street
Investment Strategy	The Fund seeks to capture the performance of quality stocks selected from its parent index (MSCI World ex Australia). It runs a stock selection process which identifies these companies with high quality scores based on three key fundamental factors: high return of equity, stable earnings variability and low debt to equity ratio.	The Fund runs an optimization strategy to track the performance of the MSCI World Quality Mix Index. This Index is an equally weighted combination of three factor indexes - MSCI World Quality, MSCI World Value Weighted and MSCI World Minimum Volatility. It aims to represent the combined risk/return performance characteristic of quality, value and low volatility factors within global developed equities.
Index	MSCI World ex Aus Quality	MSCI World Quality Mix
Replication Method	Full Replication	Optimisation
Exposure Constraints	Capped @ 5% per security	n/a
Metrics		
Historical Yield (LTM)	8.78%	n/a
Franking (LTM)	34.00%	n/a
Gross Yield (LTM)	10.10%	n/a
Distribution Freq	Annual	Semi-Annual
Indirect Cost Ratio	0.40%	0.40%
Portfolio Rebalance	Semi-Annual	Quarterly
Number of Holdings	302	304
W-8BEN Requirement	No	No
Top 10		
	Apple 4.6%	Apple 2.1%
	Microsoft 4.5%	Exxon Mobil 2.0%
	Exxon Mobil 3.5%	Microsoft 1.9%
	Johnson & Johnson 3.0%	Johnson & Johnson 1.3%
	Roche Holdings 2.4%	Alphabet C 1.0%
	Alphabet C 2.1%	Roche Holdings 1.0%
	Alphabet A 2.0%	Pepsico 0.9%
	Home Depot 1.8%	Procter & Gamble 0.9%
	Walt Disney 1.8%	Intel 0.9%
	Visa 1.8%	McDonald's 0.8%
	<i>Data as at 31/10/2015</i>	<i>Data as at 31/10/2015</i>
Sector Exposure		
	Financials 2.8%	Financials 17.1%
	IT 26.8%	IT 15.3%
	Health Care 15.4%	Health Care 10.8%
	Consumer Discretionary 20.5%	Consumer Discretionary 13.2%
	Consumer Staples 12.3%	Consumer Staples 12.3%
	Industrial 13.4%	Industrial 9.8%
	Energy 4.1%	Energy 7.9%
	Materials 3.7%	Materials 5.9%
	Telecom Serv 0.3%	Telecom Serv 3.6%
	Utilities 0.3%	Utilities 4.2%
	<i>Data as at 31/10/2015</i>	<i>Data as at 31/10/2015</i>
Geographic Exposure		
	United States 74.4%	United States 59.8%
	United Kingdom 8.8%	United Kingdom 7.2%
	Switzerland 4.0%	Switzerland 4.5%
	Japan 1.1%	Japan 7.8%
	Others 10.7%	Others 19.7%
	<i>Data as at 31/10/2015</i>	<i>Data as at 31/10/2015</i>

## Market Update

Exchange Traded Product (ETP) global assets under management weakened in the September quarter falling 5.7% to \$2.778tn. Net new inflows delivered \$84.9bn, supported by very solid flows in July and September, and a slightly soft August. However, these gains were offset by a weakening in market values in global equity markets weighing on FUM.

Figure 5: Global ETF Assets and Global Spread of FUM



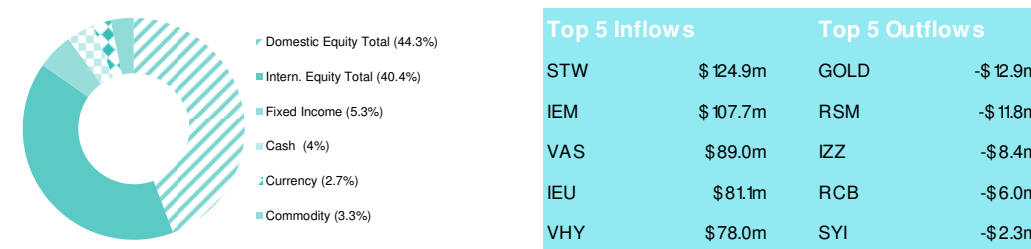
SOURCE: BLACKROCK

As per prior quarter, much of the global equity net inflows were driven by Non-US Developed Markets, mainly from Europe and Japan, with investors taking advantage of their attractive valuations in relative to the US. Emerging Market funds continued to shed cash as economic news out of China weighed on China equity and other Asia country equity fund flows.

Fixed Income also had a relatively strong period as it benefitted from US Federal Reserve's decision to leave rates unchanged. In fact, if monthly inflows in Fixed Income ETPs continue to grow at the current rate, cumulative inflows in 2015 should outperform the previous 3 years. While, commodities ETFs also had a relatively soft quarter buffeted by low precious metal prices.

The domestic ETF sector had another solid quarter with FUM rising 3.8% to \$18.9bn. This was driven largely by another strong period of net inflows in spite of a disappointing quarter in Australian Equities. Net inflows increased with a healthy \$1.4bn inflows within the quarter, driven by equity related products with domestic equity accounting for \$580.5m, while international equity raised \$584.6m.

Figure 6: Australian Spread of FUM, Top 5 Inflow and Outflows (3Q15)



SOURCE: ASX DATA AND BELL POTTER DATA

SOURCE: ASX DATA AND BELL POTTER DATA

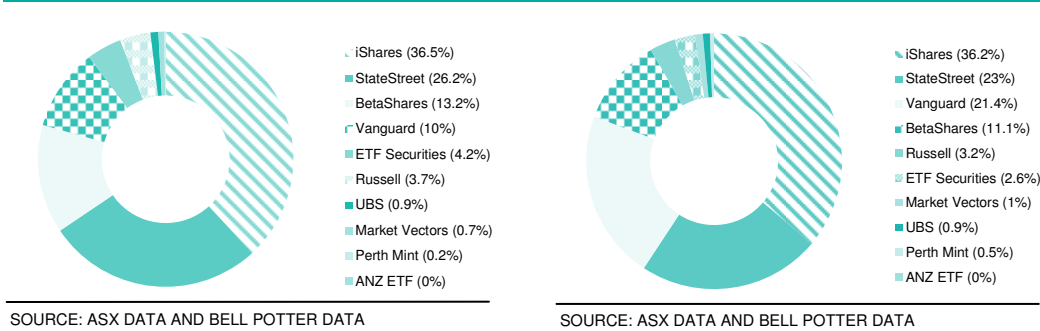
Inflows in domestic equity were supported by broad market ETFs, Vanguard VAS (S&P/ASX 300) and State Street's STW (S&P/ASX 200), accrued \$214m between them in 3Q15. Yield products again appeared to resonate with investors with VHY (Vanguard's High Dividend Yield) accruing \$78.0m. International flows were interesting, with the bigger themes dominated flows. VTS and VEU amassed \$109.5m as investors opted this low cost option for broad global exposure, while investors took advantage of attractive valuation in Europe through iShare's IEU. Investors seem to increased their position in a Healthcare sector that is heavily underweighted in Australia, by purchasing IXJ (iShares' Global Healthcare), which accumulated \$56m. While iShares' China ETF (IZZ) continues to shed cash, losing \$8.4m within the quarter.

Market Update (continued)

Fixed Interest ETF had a solid period with \$132m flowing into this market off an admittedly low base. It would appear that investors were shifting focus from Russell's RSM (Semi-Government Bonds) and RCB (Corporate Bonds) to Composite Bonds products, Vanguard's VAF and iShares's IAF, as together they accrued 90% of the sector inflow.

Commodities continued to struggle with \$3m in outflows, largely dominated by a decline in ETF Securities' GOLD. Generally speaking, there has been a lack of traction in the broader suite of commodity ETCs, with BetaShares' OOO (Synthetic WTI Crude Oil) being one of the more active ETC in this space in terms of inflows and volume. Currency had another good period dominated by USD which contributed \$35.7m net inflow.

Figure 7: Spread of Fees and Market Share Amongst ETF Providers



Amongst the ETF providers, iShares continues to dominate with \$6.8bn in FUM, compared with StateStreet on \$4.4bn, Vanguard on \$4.0bn and BetaShares on \$1.2bn. The remaining providers account for \$1.6bn between them. We believe the ETF providers offering international solutions are going to continue to drive flows in the next 12-month period. This is likely supported by an influx of new international products.



## ETF Summary Information

This report aims to provide a comprehensive assessment of the Australian ETP landscape including Market Update and Summary Information to assist with the selection process. We also enclose an individual profile sheet for each ETP that provides a snap shot including a description, performance, country and sector allocation, risk and return metrics, and valuation measures.

### Summary Information (Page 10)

This table provides a comprehensive review of the product suite of ETFs available on the ASX. The universe is broken into each asset class and investment style. It is designed to allow an investor to quickly establish which ETFs are available in each category and key points of differentiation.

This page includes:

- Description: Index, commodity or currency that the product is tracking.
- ETF ASX Code
- Price: As at 30 October 2015
- Manager: The investment manager supporting the product.
- Index: Operator of the Index
- Holdings: Approximate amount of securities in the ETF's portfolio
- Fees : Management and Performance Fees
- Spread: Bid-Ask spread to instigate a trade

## Summary Information

## Domestic ETFs

Description	ETF	Price (\$)	Manager	Index	Holdings	Fees (%)	Spread (%)	Listed ASX	Global Mkt Cap
<b>Broad Market</b>									
ASX 200	IOZ	21.96	iShares	MSCI	~200	0.19	0.25	Dec-10	383.1
ASX 200	STW	49.65	Statestreet	S&P	~203	0.29	0.08	Aug-01	2,950.7
ASX 300	VAS	66.80	Vanguard	S&P	~304	0.15	0.15	May-09	1,263.4
<b>Large Cap</b>									
ASX 20	ILC	22.58	iShares	S&P	~20	0.24	0.28	Dec-10	285.0
ASX 30	VLC	57.05	Vanguard	MSCI	~32	0.20	0.30	May-11	51.7
ASX 50	SFY	51.22	StateStreet	S&P	~52	0.29	0.15	Aug-01	436.8
ASX 100	ZOZI	9.83	ANZ ETFS	S&P	~100	0.24	0.17	Jun-15	2.0
<b>Small Cap</b>									
ASX Small Ords	ISO	3.79	iShares	S&P	~201	0.55	0.63	Dec-10	32.1
ASX Small Ords	SSO	11.29	StateStreet	S&P	~176	0.50	0.21	Apr-11	7.9
ASX Small Companies	VSO	43.91	Vanguard	MSCI	~140	0.30	0.22	May-11	80.3
ASX Small Cap Div Payers	MVS	16.00	Market Vectors	MV	~92	0.49	0.29	May-15	30.7
<b>Sector</b>									
ASX 200 Financials x-Prop	OZF	19.97	Statestreet	S&P	~29	0.40	0.13	Apr-11	40.1
ASX 200 Financials x-Prop	QFN	11.10	BetaShares	S&P	n/a	0.39	0.23	Dec-10	14.9
Australian Banks	MVB	26.01	Market Vectors	MV	~8	0.28	0.13	Oct-13	17.2
ASX 200 Resources	QRE	3.91	BetaShares	S&P	n/a	0.39	0.45	Dec-10	5.6
ASX 200 Resources	OZR	7.05	Statestreet	S&P	~31	0.40	0.37	Apr-11	19.1
Australian Resources	MVR	16.41	Market Vectors	MV	~23	0.35	0.24	Oct-13	2.4
Emerging Resources	MVE	6.18	Market Vectors	MV	~35	0.49	0.42	Oct-13	2.5
ASX 200 Property	SLF	11.91	Statestreet	S&P	~18	0.40	0.17	Feb-02	590.7
ASX 300 Property	VAP	75.13	Vanguard	S&P	~26	0.25	0.25	Oct-10	487.8
Australian Property	MVA	18.76	Market Vectors	MV	~12	0.35	0.21	Oct-13	45.4
<b>High Div</b>									
High Dividend Yield	IHD	13.74	iShares	S&P	~50	0.30	0.31	Dec-10	234.3
High Dividend Yield	RDV	28.39	Russell	Russell	~46	0.34	0.32	May-10	276.5
High Dividend Yield	SYI	27.00	Statestreet	MSCI	~37	0.35	0.12	Sep-10	144.8
High Dividend Yield	VHY	58.02	Vanguard	FTSE/ASFA	~37	0.25	0.24	Jun-11	578.3
Research Pref Aust Div Fund	DIV	18.95	UBS GAM	UBS	~40	0.70	0.26	Jan-14	22.6
High Shareholder Yield	ZYAU	9.68	ANZ ETFS	S&P	~40	0.35	0.16	Jun-15	1.5
Dividend Harvester Fund	HVST	21.50	BetaShares	BetaShares	n/a	0.90	0.21	Oct-14	119.2
ASX 20 Equity Yield Maximiser	YMAX	9.54	BetaShares	S&P	~20	0.79	0.22	Nov-12	330.3
<b>Style</b>									
Australian Value Shares	RVL	28.61	Russell	Russell	~38	0.34	0.29	Mar-11	20.9
Australian Equal Weight	MWV	21.80	Market Vectors	MV	~73	0.35	0.19	Mar-14	48.0
RAFI Australia 200	QOZ	11.61	BetaShares	FTSE	~200	0.40	0.35	Jul-13	77.1
IQ Research Pref Aust Share Fund	ETF	20.47	UBS GAM	UBS	~40	0.70	0.29	Oct-12	56.4
<b>Alternative</b>									
Australian Equities Bear Fund	BEAR	17.72	BetaShares	S&P	n/a	1.38	0.13	Jul-12	63.7
Australian Equities Strong Bear	BBOZ	27.30	BetaShares	S&P	n/a	1.38	0.13	Apr-15	41.0
Geared Australian Equity	GEAR	18.48	BetaShares	S&P	n/a	0.80	0.22	Apr-14	72.7
<b>Ethical</b>									
Australian Equity ex Tob ex Cont Weap	UBA	18.13	UBS	MSCI	~70	0.17	0.18	Feb-15	79.7

Source: Company Data, ASX, B'berg, Bell Potter

## Summary Information

## International ETFs

Description	ETF	Price (\$)	Manager	Index	Holdings	Fees (%)	Spread (%)	Listed ASX	Global Mkt Cap
<b>Global</b>									
World ex-Australia	WXOZ	25.65	Statestreet	S&P	~1500	0.42	0.22	Mar-13	141.7
World ex-Australia	VGS	61.35	Vanguard	MSCI	~1579	0.18	0.30	Nov-14	136.4
Global 100	IOO	107.42	iShares	S&P	~100	0.40	0.15	Oct-07	2,470.7
<b>Currency Hedged</b>									
World ex-Aus (AUD hedged)	WXHG	18.61	Statestreet	S&P	~1500	0.48	0.29	Jul-13	65.4
World ex-Aus (AUD hedged)	VGAD	53.51	Vanguard	MSCI	~1579	0.21	0.48	Nov-14	53.5
Global 100 (AUD hedged)	IHOO	97.26	iShares	S&P	~1	0.46	0.60	Dec-14	47.0
S&P 500 (AUD hedged)	IHVV	260.50	iShares	S&P	~1	0.13	0.38	Dec-14	237.1
<b>Region</b>									
US Broad Market Index	VTI	151.65	Vanguard	MSCI	~3809	0.05	0.13	May-09	831.6
S&P 500	IVV	297.64	iShares	S&P	~500	0.07	0.06	Oct-07	99,191.5
S&P 500	SPY	294.93	Statestreet	S&P	~507	0.09	0.15	Oct-14	251,722.8
ALL-World ex US	VEU	64.60	Vanguard	FTSE	~2510	0.14	0.22	May-09	604.0
Europe, Australasia & Far East	IVE	86.73	iShares	MSCI	~916	0.34	0.24	Oct-07	82,289.4
Europe 350	IEU	59.91	iShares	S&P	~352	0.60	0.20	Oct-07	4,124.8
Asia 50	IAA	64.55	iShares	S&P	~50	0.50	0.31	Sep-08	497.0
Brazil, Russia, India & China	IBK	44.91	iShares	MSCI	~306	0.69	0.55	Sep-08	280.7
Emerging Markets	IEM	49.55	iShares	MSCI	~846	0.69	0.27	Oct-07	32,532.1
Emerging Markets	WEMG	17.46	Statestreet	S&P	~316	0.65	0.36	Nov-13	7.0
Emerging Markets	VGE	55.39	Vanguard	FTSE	~1061	0.48	0.61	Nov-13	46.1
<b>Country</b>									
China Large-Cap	ICZ	54.49	iShares	FTSE	~52	0.73	0.27	Oct-07	8,647.6
China A-Shares	CETF	62.77	Market Vectors	CSI	~466	0.72	0.52	Jun-15	122.4
Hong Kong	IHK	29.10	iShares	MSCI	~40	0.53	0.37	Nov-07	3,878.3
Japan	IJP	17.61	iShares	MSCI	~313	0.53	0.26	Oct-07	28.5
Singapore	ISG	15.82	iShares	MSCI	~28	0.53	0.45	Nov-07	863.8
South Korea	IKO	77.27	iShares	MSCI	~109	0.61	0.45	Nov-07	4,783.0
Taiwan	ITW	19.70	iShares	MSCI	~99	0.61	0.43	Nov-07	4,653.1
<b>US Capitalisation</b>									
Nasdaq 100	NDQ	11.48	BetaShares	Nasdaq	n/a	0.48	0.28	May-15	35.6
Russell 2000	IRU	164.99	iShares	S&P	~1969	0.20	0.39	Nov-07	39,399.6
Midcap 400	IJH	204.00	iShares	S&P	~400	0.17	0.34	Oct-07	37,250.4
Small Cap 600	IJR	160.55	iShares	S&P	~601	0.17	0.37	Oct-07	23,536.6
<b>Sector</b>									
Global Select Real Estate	DJRE	22.50	Statestreet	Dow Jones	~215	0.50	0.22	Nov-13	67.7
Global Consumer Staples	IXI	134.46	iShares	S&P	~96	0.48	0.32	Mar-09	894.2
Global Healthcare	IXJ	148.56	iShares	S&P	~90	0.48	0.19	Mar-09	2,243.3
Global Telecommunications	IXP	85.89	iShares	S&P	~30	0.48	0.42	Mar-09	571.2
Gold Miners	GDX	21.43	Market Vectors	NYSE ARCA	~35	0.53	0.44	Jun-15	6,747.2

Source: Company Data, ASX, B'berg, Bell Potter

## Summary Information

## International ETFs (cont.)

Description	ETF	Price (\$)	Manager	Index	Holdings	Fees (%)	Spread (%)	Listed ASX	Global Mkt Cap
<b>Fundamentals</b>									
World ex Australia Quality	QUAL	20.00	Market Vectors	MSCI	~302	0.75	0.26	Oct-14	64.4
World Quality Mix	Q MIX	15.99	Statestreet	MSCI	~304	0.40	n/a	Sep-15	3.2
RAFI US 1000	QUS	28.83	BetaShares	FTSE	n/a	0.40	0.23	Dec-14	11.5
Morningstar Wide Moat	MOAT	42.91	Market Vectors	Morningstar	~20	0.49	0.32	Jun-15	1,109.2
<b>Yield</b>									
Global Dividend Fund	WDIV	18.62	Statestreet	S&P	~102	0.50	0.32	Nov-13	76.9
S&P 500 Yield Maximiser Fund	UMAX	18.34	BetaShares	S&P	n/a	0.79	0.21	Sep-14	46.0
S&P 500 High Yield Low Vol Fund	ZYUS	11.43	ANZ ETFS	S&P	n/a	0.35	0.30	Jun-15	3.4
<b>Ethical</b>									
World Ex Aus ex Tobacco ex Con Weap	UBW	20.75	UBS	MSCI	~1550	0.35	0.28	Feb-15	10.4
Europe ex Tobacco ex Con Weap	UBE	20.92	UBS	MSCI	~430	0.40	0.35	Feb-15	7.8
Asia Apex 50 ex Tobacco ex Con Weap	UBP	18.67	UBS	MSCI	~50	0.45	0.37	May-15	0.9
US ex Tobacco ex Con Weap	UBU	21.31	UBS	MSCI	~610	0.20	0.25	Feb-15	2.7
Japan ex Tobacco ex Con Weap	UBJ	21.03	UBS	MSCI	~320	0.40	0.26	Mar-15	5.3

## Summary Information

## Fixed Income, Commodities &amp; Currency ETFs

Description	ETF	Price (\$)	Manager	Index	Holdings	Fees (%)	Spread (%)	Listed ASX	Global Mkt Cap
<b>Domestic Fixed Income</b>									
Composite Bond	IAF	106.34	iShares	Bloomberg	~332	0.24	0.15	Mar-12	283.8
Government Inflation	ILB	114.37	iShares	Bloomberg	~14	0.26	0.37	Mar-12	46.2
Treasury	IGB	103.52	iShares	Bloomberg	~21	0.26	0.24	Mar-12	16.3
Government Bonds	RGB	21.37	Russell	DBIQ	~6	0.24	0.36	Mar-12	146.3
Semi-Government Bonds	RSM	20.75	Russell	DBIQ	~10	0.26	0.44	Mar-12	115.5
Corporate Bonds	RCB	20.40	Russell	DBIQ	~10	0.28	0.30	Mar-12	73.7
Government Bonds	VGB	49.29	Vanguard	Bloomberg	~82	0.20	0.27	Apr-12	58.9
Fixed Interest	VAF	49.87	Vanguard	Bloomberg	~472	0.20	0.16	Oct-12	271.4
Government Bonds	GOVT	25.97	Statestreet	S&P	~54	0.22	0.19	Jul-12	7.8
Fixed Interest	BOND	26.11	Statestreet	S&P	~76	0.24	0.19	Jul-12	15.8
High Interest Cash	AAA	50.17	BetaShares	30 Day BBSW	n/a	0.18	0.02	Mar-12	782.1
<b>Commodities</b>									
<b>Unhedged</b>									
Physical Gold	GOLD	155.00	ETF Securities	Spot Gold	n/a	0.40	0.10	Mar-02	431.5
Physical Gold	ZGOL	16.16	ANZ ETFS	Spot Gold	n/a	0.40	n/a	Jun-15	0.8
Spot Gold	PMGOLD	16.16	Gold Corp	Spot Gold	n/a	0.15	0.48	Jan-11	4.8
Physical Silver	ETPMAG	21.13	ETF Securities	Spot Silver	n/a	0.49	0.82	Jan-09	47.8
Physical Platinum	ETPMPT	134.43	ETF Securities	Spot Platinum	n/a	0.49	0.57	Jan-09	3.5
Physical Palladium	ETPMPD	91.04	ETF Securities	Spot Palladium	n/a	0.49	0.73	Dec-08	1.5
Basket	ETPMPM	121.50	ETF Securities	n/a	n/a	0.44	0.79	Jan-09	4.9
Agriculture ^	ETPAGR	7.25	ETF Securities	Bloomberg	n/a	0.49	0.78	Jun-12	0.5
All Commodities ^	ETPCMD	12.86	ETF Securities	Bloomberg	n/a	0.49	0.53	Jun-12	0.1
Copper ^	ETPCOP	32.96	ETF Securities	Bloomberg	n/a	0.49	0.77	Jun-12	0.6
Corn ^	ETPCRN	1.67	ETF Securities	Bloomberg	n/a	0.49	0.77	Jun-12	0.1
Natural Gas ^	ETPGAS	0.09	ETF Securities	Bloomberg	n/a	0.49	1.82	Jun-12	0.1
Grains ^	ETPGRN	5.96	ETF Securities	Bloomberg	n/a	0.49	0.72	Jun-12	0.8
Industrialised Metals ^	ETPIND	14.15	ETF Securities	Bloomberg	n/a	0.49	0.74	Jun-12	0.1
Energy ^	ETPNRG	6.25	ETF Securities	Bloomberg	n/a	0.49	0.80	Jun-12	0.1
Brent Crude ^	ETPOIL	36.55	ETF Securities	Bloomberg	n/a	0.49	0.76	Jun-12	1.2
Wheat ^	ETPWHT	1.33	ETF Securities	Bloomberg	n/a	0.49	0.92	Jun-12	0.2
<b>Hedged</b>									
Spot Gold (AUD hedged)	QAU	12.18	BetaShares	Spot Gold	n/a	0.59	0.28	May-11	18.2
Crude Oil Index (Synthetic)	OOO	20.40	BetaShares	S&P	n/a	0.69	0.22	Nov-11	34.6
Agriculture (Synthetic)	QAG	7.84	BetaShares	S&P	n/a	0.69	0.52	Dec-11	2.7
Commodities (Synthetic)	QCB	10.10	BetaShares	S&P	n/a	0.69	0.8	Dec-11	8.7
<b>Currency</b>									
USD	USD	13.80	BetaShares	Spot USD	n/a	0.45	0.11	Feb-11	493.8
USD	ZUSD	10.79	ANZ ETFS	Spot USD	n/a	0.45	0.23	Jun-15	1.6
EEU	EEU	14.98	BetaShares	Spot EURO	n/a	0.45	0.14	Jul-11	4.0
POU	POU	21.40	BetaShares	Spot GBP	n/a	0.45	0.13	Jul-11	9.7
RMB	ZCNH	10.40	ANZ ETFS	Spot RMB	n/a	0.57	0.24	Jun-15	1.0

Source: Company Data, ASX, B'berg, Bell Potter

## Appendix A: How an ETF works

ETFs are open ended securities that trade on an exchange. Open ended denotes that new products can be created and redeemed on the Primary Market, without the requirement to release a new prospectus, ad infinitum. The open ended nature of ETFs is unique to this product class, and what keeps the underlying Net Asset Value (NAV) in line with the assets' market price. This process is managed by the Authorised Participants and Market Makers who are engaged by the ETF operator to continually create and redeem shares to ensure the discount to NAV is managed within a defined range.

This results in a two tiered market structure: The Primary Market and the Secondary Market. The Primary Market is the market in which Market Makers, via the Authorised Participants, are able to create and redeem units. The Secondary Market is the market in which investors are able to buy and sell these units on an exchange.

### Mechanics of the Primary Market

The Authorised Participant applies to the issuer to create new ETF units via creation units. In return for each creation unit, the Authorised Participant will deliver a basket of securities that has been specified by the Issuer. This basket will be transferred and held by a Custodian. Following settlement, the Authorised Participant has an inventory of ETF securities (shares) that can be accessed by the Market Makers and sold on the ASX in the Secondary Market.

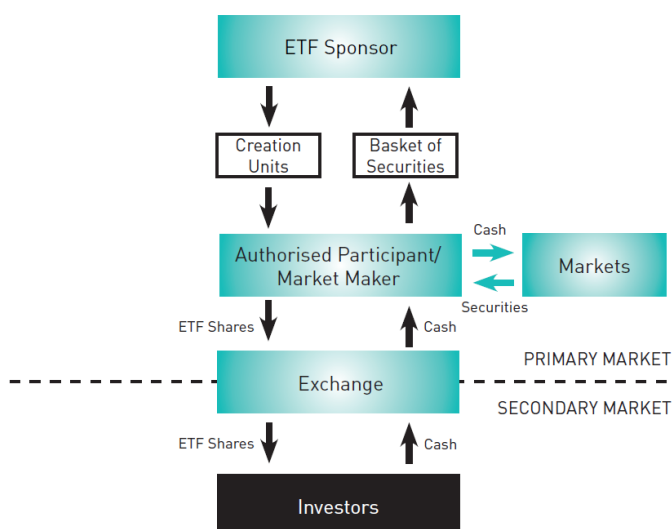
The redemption process operates in a similar manner. The Authorised Participant applies to redeem the securities in creation units. In return for each creation unit, the Authorised Participant will receive a basket of securities in kind. Each ETF security effectively represents a sliver of a creation unit. Creation units are typically created in baskets in excess of \$1.2m.

### Mechanics of the Secondary Market

The Secondary Market is the market in which investors are able to buy and sell ETF units with the assistance of the Market Maker. The Market Maker will access the Authorised Participants (Primary Market) if additional inventory is required (create) or alternatively sold (redeem), to in effect make the market. Hence, the liquidity of the ETF is as liquid as the underlying market.

The Market Maker effectively ensures liquidity in the market place by quoting Buy and Sell prices during the trading day. These prices are continuously updated to reflect the underlying changes in the securities. The ETF Issuer generally has a formal arrangement with at least one Market Maker with a mandate to make the market within a specified range of spread. *However, in dislocated markets, Market Makers can suspend operations until the market stabilises.*

**Figure 3 - ETF Market Structure: Primary and Secondary Market**



Source: Bell Potter

## Appendix B: Physical versus Synthetic

ETFs come in two basic forms: Physical or Synthetic. A Physical ETF (or traditional ETF) is backed by the underlying securities to achieve market performance, whereas a Synthetic ETF also incorporates derivatives to deliver market performance.

Physical ETFs can either be Full Replication or Optimisation. Full replication means that the entire index is bought in the exact same weightings as the index to replicate performance. Optimisation is similar to replication, however, the portfolio seeks to reproduce the index performance using a representative basket of securities rather than buying each and every component. Optimisation is generally used in markets where liquidity may be limited or costs are prohibitive for full replication.

Synthetic ETFs differ from Physical ETFs in that they use derivatives to track an index. More specifically, Synthetic ETFs available in Australia seek to replicate an index by purchasing a basket of securities or cash as collateral in exchange for a return contract that tracks the price and distribution performance of the relevant index, before fees and expenses.

Hence, if the portfolio underperforms the index, the amount of underperformance is payable by the financial institution to the ETF. Conversely, if the portfolio outperforms the index, the amount of outperformance is payable from the ETF to the financial institution.

However, this also raises an additional element of concern given the use of derivatives exposes the ETF holder to counterparty risk.

Firstly, the swap negotiated with the counterparty is an over the counter derivative. Hence, investors are exposed to counterparty risk for the portion of the NAV that is not represented by physical assets.

Secondly, in the event of default and the counterparty is unable to fulfil its obligation, shareholders are left with an interest in the securities held in the ETF portfolio. In the case of overseas Synthetic ETFs, these holdings may diverge significantly from the underlying index.

Finally, the Bank for International Settlements also raised some concern regarding the quality and liquidity of physical assets underlying Synthetic ETFs and in particular the motivations that may arise when the ETF issuer is a related party to the investment bank that is the swap counterparty.

To counter these concerns, ASIC and ASX have developed regulation and guidelines that state:

- Only APRA regulated deposit taking institutions (or approved overseas equivalents) are eligible to be a counterparty to an Australian swap enhanced ETF;
- Swap-enhanced ETFs are allowed a maximum counterparty exposure of 10%, and;
- A requirement for the underlying assets held by the ETF to be consistent with the investment objective of the fund.

As such, the basket of assets that make up a Synthetic ETF listed on the ASX will only be securities that either relate directly to the index being tracked or cash and must make up at least 90% of the portfolio, hence reducing counterparty risk in the event of a default.

Further, the issue of a conflict of interest with the ETF provider being the swap provider also does not currently exist in Australia as there are no synthetic ETF providers controlled by the banks to which they have a swap agreement in place. Nonetheless, we remain of the view that as the market evolves and increasingly more sophisticated products enter the market, buyers need to remain aware.

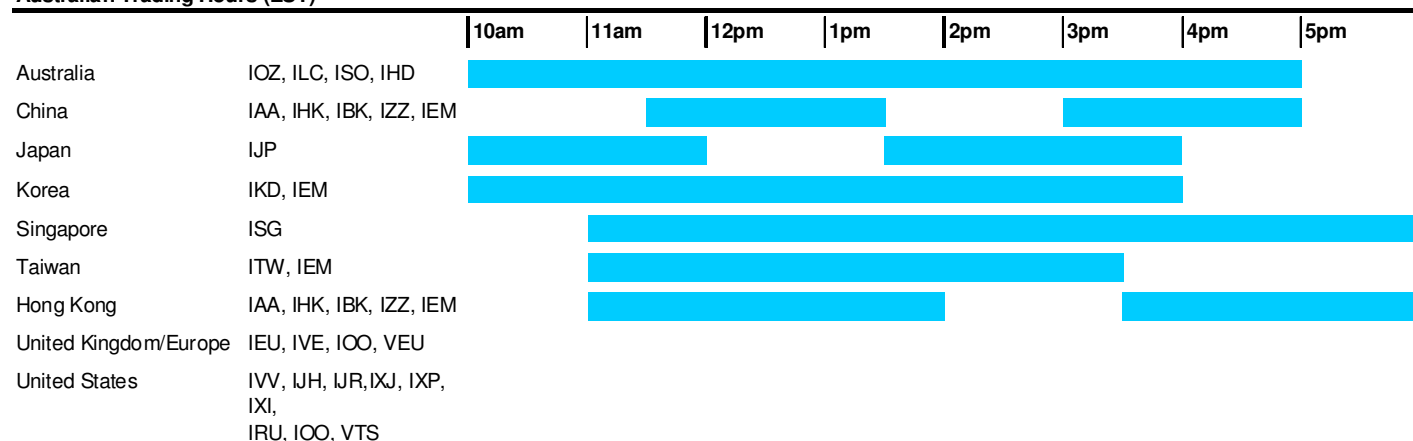
## Appendix C: International Exchange Opening Hours

ETF liquidity in the secondary market is assisted by Market Makers. Market Makers effectively ensure liquidity in the market place by quoting Buy and Sell prices during the trading day. These prices are continuously updated to reflect the underlying changes in the securities.

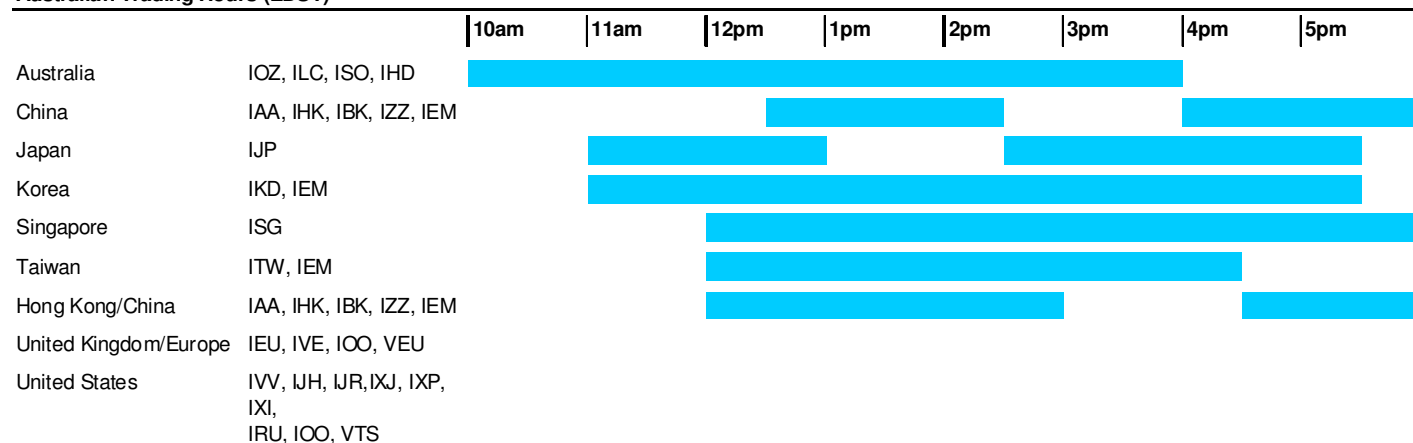
Market Makers work most efficiently when the market is completely open. Investors therefore need to be aware of when the underlying markets open and close, to ensure the maximum number of Market Makers are on screen. It is therefore advisable to hold off buying or selling an ETF until 15 minutes after a market opens or no later than 15 minutes before a market closes.

**Figure 1 - International Exchange Opening Hours**

### Australian Trading Hours (EST)



### Australian Trading Hours (EDST)



Source: iShares, Bell Potter



## Appendix D: ETF / ETC Market Making Quoting Obligations

EXCHANGE TRADED COMMODITIES					
ETC Code	Quoting Table	Market Maker			
		Susquehanna Pacific	Citigroup Global Markets Australia	IMC Pacific	Deutsche Securities Australia
ETPMAG	3	x			
ETPMPT	5	x			
ETPMPO	5	x			
ETPMPI	4	x			
GOLD	NIA*				
QAU	1			x	

\* NIA means due to the natural high level of liquidity, this product is not offered in the incentive scheme. Market Makers can however still make a market in this product.

## Quoting Schedules for ETF / ETC securities

## Schedule 1

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	2c	\$50,000 worth of stock
>\$5	40 bps of best bid	\$50,000 worth of stock

## Schedule 2

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	3c	\$30,000 worth of stock
>\$5	60 bps of best bid	\$30,000 worth of stock

## Schedule 3

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	5 c	\$25,000 worth of stock
>\$5	1% of best bid	\$25,000 worth of stock

## Schedule 4

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	7c	\$20,000 worth of stock
>\$5	1.5% of best bid	\$20,000 worth of stock

## Schedule 5

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	10 c	\$17,500 worth of stock
>\$5	2% of best bid	\$17,500 worth of stock

## Schedule 6

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	12c	\$15,000 worth of stock
>\$5	2.5% of best bid	\$15,000 worth of stock

## Schedule 7

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	17c	\$12,500 worth of stock
>\$5	3.5% of best bid	\$12,500 worth of stock

## Schedule 8

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	25 c	\$10,000 worth of stock
>\$5	5% of best bid	\$10,000 worth of stock

## Schedule 9

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	37 c	\$7,500 worth of stock

## Schedule 10

Bid Price in \$AUD for Shares	Maximum Spread	Minimum Quantity
\$5<	50 c	\$5,000 worth of stock
>\$5	10% of best bid	\$5,000 worth of stock

## Description of Quoting obligations for Market Makers

Minimum Percentage of time to maintain two-way quotes	Maximum spread (being the Offer price less the Bid price)	Minimum quantity of Products in each Bid and Offer (\$AUD)
80% of the time from 10:15 until commencement of the Pre-CSPA (Closing Single Price Auction) Session State (generally 16:00) on any Trading Day.	The maximum spread referred to in schedules 1-10 above is based on the relevant Bid price in \$AUD.	The minimum quantity for Products referred to in schedules 1-10 is based on the Bid price for the bid quantity and Offer price for the offer quantity in \$AUD.

## Appendix E: Glossary

**Active Management:** Investing with the goal of outperforming a benchmark index.

**Alpha:** The manager's return relative to the return of a benchmark. For example, consider a manager with a Russell 1000 Value benchmark. If the manager returned 7% when the Russell 1000 Value returned 6%, the alpha would be 1%. However, alpha can be both positive and negative (out-performance and underperformance).

**Asset Allocation:** The process of spreading an investment among various asset classes such as stocks, bonds, and cash equivalents.

**Authorised Participant:** Large investors, institutions, exchange specialists, and arbitrageurs that place orders for creation units with the fund's distributor.

**Beta:** In the context of this report, a beta is a representation of the tendency of a company's share price to respond to swings in the market. A beta of 1 indicates that a company's share price will move in line with a benchmark. A beta of greater than one indicates that a share's price will be more volatile than the market.

**Bid and Ask:** The price an owner offers to sell (ask) and the price a prospective buyer offers to purchase (bid).

**Credit Ratings:** Forward-looking opinions about credit risk based on the ability and willingness of an issuer, such as a corporation or government, to meet their financial obligation in full and on time.

**Dividend:** A distribution to preferred or common stockholders.

**Excess Return to Risk Ratio:** This ratio, also known as the Sharpe ratio, provides a measure of the return of each portfolio relative to the risk taken by the investment manager in achieving those returns. A high return is only desirable if it does not come with too much additional risk (volatility of returns - see Standard Deviation). In the context of this report, each ETF's excess return to risk ratio can be looked at in combination with its annualised compound total return directly below in our '3-year performance measures'.

**Grossed Up Dividend Yield:** This is the dividends paid plus any franking credits passed on to shareholders.

**Exchange Traded Funds:** Investment vehicles that are constructed like a mutual fund but trade like an individual security on a stock exchange. Created in 1989, these instruments have been widely used by institutional investors and retail investors.

**Franking:** A tax credit used in Australia that allows domestic companies to pass through taxes that have already been paid on corporate profits. The investor receiving stock dividends will also receive a quantity of franking credits in proportion to the overall tax rate of the company per dollar in profits.

**Free-Float:** The amount of a company's shares outstanding that are available for purchase on the open market at any point in time.

**Full Replication:** Process in which a portfolio manager seeks to replicate performance by exactly matching the benchmark in composition and weight to ensure a similar outcome.

**Growth-Oriented Securities:** Companies that have exhibited faster-than-average gains in earnings over several years and are expected to continue to show high levels of profit growth. Typically riskier than average stocks, they exhibit higher price/earnings ratios and often make little or no dividend payments to shareholders.

**Liquidity:** The ability to convert a security or asset quickly into cash.

**Modified Duration:** A measure of price sensitivity of a bond to changes in interest rates. It inversely indicates the expected change in the price of a bond assuming a 1% change in yield.

**Net Asset Value (NAV):** The value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding. Calculated at the end of each business day.

**Optimisation:** Process in which a portfolio manager seeks to replicate an index by using a representative basket of securities. Optimisation is generally used in markets where liquidity may be limited or costs are prohibitive for full replication.

**Passive Management:** Investing in an attempt to track the return of the underlying benchmark index. Typically a passively managed portfolio has good diversification, low turnover (good for keeping down internal transaction costs), and lower management fees.

**MSCI:** The MSCI indices encompass 23 developed, 25 emerging, and 22 frontier markets.

**Redeem:** To exchange fund shares for their present value in either cash or "in-kind" securities.

**Running Yield:** The annual coupon payment divided by the current share price. It gives an indication of expected cash flow income from invested capital.

## Glossary

**S&P 500:** Widely regarded as the standard for measuring large-cap U.S. stock market performance. This index includes a representative sample of leading companies in leading industries.

**Sharpe ratio:** This ratio provides a measure of the return of each ETF's portfolio relative to the risk taken by the Investment Manager in achieving those returns. A high return is only desirable if it does not come with too much additional risk (volatility of returns). In the context of this report, each ETF's excess return to risk ratio can be looked at in combination with its annualised compound total return directly.

**Standard Deviation:** This is a measure of the dispersion of a portfolio's returns around its average return. A data set that has many monthly returns a long way from the average return will have a greater standard deviation than a set of monthly returns that are close to the average. In the context of this report, we calculate the average monthly return of each ETF, as represented by changes in its NAV, and from this we can calculate a standard deviation from its average. A theoretical ETF that achieved the exact same return every month would have a standard deviation of zero.

**Spread:** The gap between bid and ask prices of a security.

**Tactical Asset Allocation:** An active management portfolio strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors.

**Tracking Error:** This is a measurement of how much the return on a portfolio deviates from the return on its benchmark index. A data set that has a low tracking error means that its returns are closely tracking the portfolio's benchmark. Tracking error is the standard deviation of the differences between the return on the portfolio and the return on the benchmark.

**Value-Oriented Securities:** Stocks of corporations that are "cheap" by traditional measurements in comparison to their price/earnings ratio, price/book ratio, and yield.

**Weighted Average Coupon:** Used to calculate the average coupon of a basket of bonds. It is calculated as the average of the underlying bonds' coupon rates weighted by the bonds weight in the fund.

**Weighted Average Term to Maturity:** A measure of the maturity of a basket of bonds. It is calculated as the average of the underlying bonds' maturities weighted by the bonds' weight in the fund. A bond's maturity is the length of time until the date when the principal amount of a bond is to be repaid.

**Yield:** The return on a security or portfolio in terms of cash payments. A percentage obtained by dividing the current dollar income by the current market price of the security.

**Yield to Maturity:** Rate of return that is anticipated on a bond if it is held until maturity. The yield takes into account both return received for the coupon payment and the return from the price appreciation or depreciation of the bonds inside the product.

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